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Institutional Investors Pay Half Price of Retail Buyers in Muni Trades.

- **Smaller trades, a proxy for retail, paid average spread of \$10**
- **Retail buyers rely heavily on the secondary market: report**

Retail investors, who hold the largest share of municipal bonds, pay roughly twice the spread that major institutional investors pay when trading recently issued debt.

The Municipal Securities Rulemaking Board measured the spread between prices on deals in the primary market and recent trades in the secondary market. Results showed trades of \$100,000 or less, a proxy for retail buyers, paid an average spread of about \$10, while trades of \$1 million or more paid a spread of \$4.42, according to a report published Monday. Institutional investors include major Wall Street firms, insurance companies, regional banks and foreign buyers, among others.

Retail buyers adding bonds to their portfolios rely heavily on the secondary market, where a flurry of trading occurs in the weeks following a new issue before trades tend to drop off. The price an investor secures can dictate the yield they receive for decades.

The report found only 8% of par purchased through large trades occurred in the secondary market, while the share for smaller transactions was closer to half. Researchers used data over a five-year period spanning 2019 to 2023, and measured spreads on purchases that took place in the first seven days of secondary trading.

Spreads varied year to year and were considerably different between competitive and negotiated deals. For competitive deals, the average spread was \$4.16, and the spread on negotiated deals was \$11.30.

“We don’t think this means issuers should flock to the competitive market,” said John Bagley, chief market structure officer at the MSRB and one of the authors of the report. In general, competitive deals tend to come from larger, more well-known issuers.

Investors placing larger orders are able to command more attractive prices, narrowing the profit underwriters make bringing bonds to market. In competitive deals, the average spread on large deals was only 27 cents, and in 2022 and 2023 when rates were rising, the spread was negative.

“If you bought a competitive deal and you didn’t sell it right away, and rates went against you, you likely had to cheapen up the deal to get it sold,” Bagley said.

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By Nic Querolo

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— *With assistance from Amanda Albright*

